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### *L'economia sommersa fra evasione e crimine: una rivisitazione del Currency Demand Approach con una applicazione al contesto italiano*

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#### Abstract

This study contributes to the debate over assessing the size of the underground economy, by proposing a reinterpretation of the Currency Demand Approach (CDA) that overcomes some restrictive assumptions characterising the pioneering contribution by Tanzi (1980, 1983) and the ensuing studies which have adopted this methodology. The availability of an original database providing monetary and fiscal information for 91 Italian provinces over the period 2005-2008 allows us to introduce three innovative aspects compared to the traditional CDA. First, instead of using the stock of liquid assets as the dependent variable in the money demand equation, we take a direct measure of cash transactions. Secondly, we use two distinct indicators of detected evasion, thus removing the need to introduce in the estimated model suitable proxies able to capture all the relevant determinants of noncompliance. Finally, the methodology we propose also controls for the presence of illegal activities, i.e., irregular transactions which are not due to fiscal motivations and identify a second (criminal) component of the underground economy, with very different implications in terms of law enforcement policies. The results highlight the higher reliability of our estimates compared to previous works based on the classic Tanzi-approach. Compared to the Southern provinces, those in the Centre-North seem to exhibit a higher incidence of the shadow economy on GDP, related to both tax evasion and crime.

**JEL classification:** Underground economy; Currency demand approach; Cash transactions; Tax evasion, Crime

**Keywords:** E26; E41; H26; K42; O17